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THE IMPACT OF RISK MANAGEMENT ON FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN AFGHANISTAN

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ABSTRACT: Professionals, scholars and bank regulators consider risk management as the core pillar for efficient bank management. This study aimed to assess the impact of risk management on financial performance of all nine commercial banks operating in Afghanistan. The core objectives of the study were to established the effect of liquidity risk on financial performance of commercial banks in Afghanistan, to determine the effect of capital adequacy ratio on financial performance of commercial banks in Afghanistan and to find out the impact of operational efficiency on financial performance of selected commercial banks in Afghanistan as well as to assess the effect of bank size as controlled variable on financial performance of commercial banks in Afghanistan. Secondary data was collected from quarterly reports and financial statements of these banks 2016-2021. Descriptive and inferential statistics mainly correlation and regression techniques were applied using E-views econometrics software. After data analysis, the study found that there exists positive association between liquidity risk management and financial performance of selected commercial banks of Afghanistan. The study also asserted positive correlation between capital adequacy and financial performance of commercial banks in Afghanistan. Moreover, the study also found significant positive relationship between operational efficiency and

financial performance of commercial banks in Afghanistan following by the positive statistically significant correlation between size of the banks and financial performance respectively. The panel regression of fixed effect analysis indicated that all independent variables positively predicts the dependent variable financial performance whereas control variable “size of the bank” exert greatest impact on the financial performance of selected commercial banks in Afghanistan. Hence, possible important suggestions and recommendations are provided for better control and management of future possible risks in this regard.

Keywords: *Risk Management, Financial Performance, Liquidity Risk, Operational Efficiency, Bank Size, Commercial Banks, Afghanistan.*

Introduction

Afghanistan is a war-torn country in which the infrastructure is seriously damaged by decades of war. When the Taliban Regime came to an end in 2001, the transitional period also faced financial problems to support its reformation and rebuilding of the respective infrastructures. Without delay, the country received adequate financial assistance from internationals to restructure the framework and the living standards of the people in Afghanistan. This financial assistance came in several forms of currencies to government and also to non-government organizations (NGOs). Besides, considering the flow of money to Afghanistan, there was a need for an active banking system to receive such an amount of money. Then, in 2003 first banking law was formulated and implemented following the best international practices. The respective law covered significant areas of operation namely, liquidity measure, capital adequacy requirement and other significant responsibilities to the central bank of Afghanistan. Moreover, from time to time, many efforts were required to assess the financial performance of each firm to handle its efficiency and effectiveness at the international level.

The assessment included various types of measurements including mainly management of possible risks in the banks (1). asserted that the existence of risk should be identified as unavoidable in every aspect of human efforts, so there is an equivalent drive to spot these risks as far as possible. Risk identification is

considered the main task of bank management and failure in risk management (RM) is reflected as one of the central reasons for financial crises in the banking system (2, 3).

The central aim of any business is to make a profit, including banking. They attempt to maximize their earnings through its operations in the business they are involved in. With this, various firms mainly work with banks and plan its activities to accomplish this goal. They explore and discover profitable occasions that can boost their return and thus escalate their outcome. Concurrently, they also work on risk reduction strategies to cut and lessen the opportunities for failure with regard to their financial performance. Subsequently, banks search for satisfactory investments to rise their profit ratios and further they take some identical measures to confirm risk minimization in daily operations. The concept of RM has always been a priority in all financial practices. Banking companies commence different types of financial risks to offer financial solutions to their trade. Due to this significant role, banks typically lodge a key position in such actions (4). Similarly, banks act as an assistant to offer funds for liquidity resolutions to their customers. To succeed in this, banks sometimes use their equity to captivate risks and to assist transactions (4). Therefore, as stated they support enabling financial activities of various industries of a nation. Running and practicing proper banking sector in a country result into considerable earning for the economy as whole (5). Moreover, risk management (RM) is centered on three basic concepts namely, utility, regression and diversification. The utility approach was proposed in 1738 by Daniel Bernouulli, which is related to decision making process (6). It is the evaluation that comprises of multitude of preferences and practices for economic sustainability. Several studies found the reasons that are mainly associated with opinion of debtors' risk and the instability of balance in providing loans to the people (7). Moreover, liquidity deals with the capability of commerce to fulfil the required financial debts as they come unpaid the normal and continuing operations of the businesses. LQR might be examined structurally and operationally whereas the first one denotes to the balance sheet. On the other hand, operational liquidity states the cash flow measures.

There exists extensive literature pertaining to RM and financial performance of various organizations. Effective practices of RM significantly influence organizations' profitability (8, 9). found that regular measurement of cost income equity to total assets ratio and total assets growth were profoundly influences the financial distress in future. Though other study revealed that macroeconomics shows less impact on the financial distress on such intuitions. The findings were also supported by (10).

Afghanistan's central bank recommenced regulatory functions essential to confirm the stability of the country's banking sector in 2003. According to USAID and State officials, the Afghan banking area remains weak and in need of vital regulations. Commercial banks might face various type of risks including monetary, strategic, and operational risks (11). The study further added that each risk could negatively predict the productivity of present commercial banks if not controlled effectively.

Financial institutions are considered the most significant sectors in the development of economy of any country. Strengthening these institutions is of an important factor as seen during the financial crisis of 2008 (12). Management of risk is a comprehensive process of determining, influence of unexpected events. Since these firms carry ultimate load and cost of these losses, they should be well prepared for managing the risks. Successful risk management tap-off costly risks. it is an essential concern that needs to be explored, particularly in the banking sector which is indeed a need for successful banking operations (12).

REVIEW OF LITERATURE

According to Wenk (2005) RM model is comprised of risk documentation and estimation, of risks connected by organized and efficient use of capitals to detect, reduce, and regulate the likelihood of respective risks. They may occur in various forms including uncertainty in the markets, projects failure, liabilities, credit risk and other natural causes which are unpredictable. Moreover, risk standards in mentioned firms have been established by the world recognized organizations in the banking sectors (13).

Tseng (2007) pointed out that (ERM) theory is a foundation that insists on the application of an organized and reliable approach for the management of possible risks facing an organization. Gordon et al., (2009) defines ERM as a total process of managing a particular firm's uncertainty with emphasis on the identification of factors that might hypothetically avoid the organization from reaching to its objective (14).

In ERM theory the following characteristics of the organization should be controlled by the concerned RM department and concerned business experts (Searle, 2008) resultantly it will assist the firm to balance essential trade burdens.

Hinson and Kowelski (2008) highlighted that this theory is a key element of RM. Since all threats may not be thoroughly removed in practice hence, residual risks always remain. Even though, organizations struggle to avoid but they still occur. These comprise specific situations, such as confluences of unfavorable occurrences, unexpected dangers, and vulnerabilities.

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Besides, (15). focuses on organizations that create profitable practice of RM. First, it includes forming an approach to identify it effectiveness and then applying them that contains management practices of these risks such as strategic, operational and governance RM. Thus, risks management theories will be applied to point out the influence of RM on FP of selected banks in Afghanistan.

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found that certain related to liquidity considerably influence the ROA of banks (17). Similarly, Basel et al., (2020) reported from a study on financial risk and performance of banks in Bahrain. The respective research explored four various forms of risks, namely capital, exchange rate, liquidity and operating risks. The study revealed capital risk was the most significant predictor of RM. (18).

Capital adequacy is common ratio which is essential for the measurement of sustainability in literature. It conveys the bank's assurance and comfort to its depositors, provides protection for them against their funds, and aids in the efficient administration of the bank. According to a review of the literature, this ratio has been determined differently in different research and nations. Total capital to total assets and total equity to assets have both been used in the calculations (10).

Operation risk is not a new notion to commercial banks (Lindblom & Willesson, 2010). The technological competition among various organizations, including banks, brought significant competitive and tough market (Moosa, 2008). These conditions made the banks operate carefully to block the possible risks. Financial distress for every bank can bring considerabl

lost and might be harmful for their day-to-day operations and as result they may collapse promptly (Flores et al., 2006).

The literature related to size of the firm supports the idea of large firms contributing to system risk. Based on the unstable banking hypothesis, large banks tend to involve more in risky activities like, trading and be financed more with short-term debt, resultantly they make them more vulnerable to wider and generalized liquidity crunches and failures in market such as lack of LQR and sales (Keshyape et al., 2002; Shleifer & Vishney, 2010; Geinnaioli, Shleifer & Vishny, 2013; Boot & Ratnoveski, 2012).

Research Gap

While considerable research has been carried out on the financial performance of commercial banks in various contexts, there is a significant gap in the literature regarding the specific influence of risk management on the financial performance of commercial banks in Afghanistan. Despite the growing relevance of risk management methods in the banking sector, there has been little research into the relationship between risk mismanagement and financial success in the Afghan banking business. Furthermore, previous research frequently focuses on particular risk components such as credit risk or market risk, while ignoring other critical aspects such as liquidity risk, operational efficiency, capital adequacy, and the impact of bank size as a control variable. Therefore, the purpose of this study is to fill this research gap by investigating the impact of risk mismanagement on the financial performance of commercial banks in Afghanistan, including liquidity risk, operational efficiency, capital adequacy, and bank size. This study will contribute to the existing literature on banking and risk management by filling a research gap, while also providing significant insights for policymakers, bank managers, and other stakeholders in the Afghan banking industry.

MATERIAL AND METHODS

Research methodology is an approach to resolving research problems scientifically. This means that it is a science of understanding how research is carried out systematically and accurately. Therefore, an investigator needs to understand the research methodology along with techniques and methods of the study. To explore risk management as predictor to financial performance of commercial banks, secondary data is collected and used for analysis. The selection of the present method is due to the accuracy and availability of the data. Thus, it is suitable to undertake all private and public commercial banks operating in Afghanistan.

Sample of the Study

Sample refers to the group of people and objects which are withdrawn from population for participation in a study. Hence, it should be a true representative of the nominated population for generalizing the results from a research sample to

population. Therefore, a sample of all nine in which six private and three public commercial banks operating in Kabul capital of Afghanistan is selected.

No	Name	Abb.	Date of Establishment
1	Afghanistan International Bank	AIB	2004
2	Azizi Bank	Aziz Bank	2006
3	Islamic Bank of Afghanistan	IBA	2009
4	The First Microfinance Bank	FMFB	2004
5	Maiwand Bank	MB	2009
6	Afghan United Bank	AUB	2004
7	Bank-e-Milli Afghanistan	BMA	1933
8	New Kabul Bank	NKB	2004
9	Pashtany Bank	PB	1954

In this study, all nine private and public commercial banks were selected for study. The following are the banks with its justification. Afghanistan International Bank was established in 2004 and since it founded itself as a leading bank in the banking sector of Afghanistan. The central headquarters is in the capital Kabul, Afghanistan. The AIB bank has a staff of between 501-1000 across the country (Devex, 2022). It has become the most reliable, respected and trusted bank among other financial institutions of the country. Over the past years, the bank has provided valuable, efficient and on-time services with respect to banking services across the country. Moreover, the mentioned bank provides various services with regard to personal banking and business banking. Besides, Azizi Bank, the second largest commercial bank Afghanistan. The bank is established in 2006 and has it presence in all 34 provinces of Afghanistan. The headquarters is located in the Zanbaq square, Kabul, Afghanistan. In addition, Maiwand Bank was founded in 2009, and it is one fast emerging commercial bank in Afghanistan. It is the first bank in Afghanistan that has special branch for ladies banking. The headquarters is located in Turabaz Khan Square, Kabul, Afghanistan. The bank also strongly supports the reconstruction and developmental efforts jointly with public sector of the country. On the other hand, Islamic Bank of Afghanistan has been established in 2009 under the law of banking system Da Afghanistan Bank (DAB) in Afghanistan. Another bank is First Micro

Finance Bank of Afghanistan is a part of Agha Khan Agency for Microfinance that runs its program in 15 countries including Afghanistan. It has a commercial license and establishes in 2004.The bank is founded with core aims to provide and contribute to poverty alleviation and economic development in Afghanistan. The head quarter is located in Ansari square, Kabul, Afghanistan. Afghan United Bank (AUB) is a full fledge private commercial banks founded in 2004. The has a legal banking license obtained under the banking law of Afghanistan from Central Bank of Afghanistan DA Afghanistan Bank. The bank is presently operating and provide services through 27 branches located in various big cities of the country including Kabul, Nangarhar, Herat, Mazar-e-Sharif, Kandahar, Balkh and Parwan provinces. And rest three banks as listed in the above table 1 are public banks operating in Afghanistan.

Data Collection

In the present study, secondary data is obtained from the concerned banks documents and report that includes the financial reports of these banks operating in Kabul, Afghanistan. Quarterly data is collected from 2016 to 2021. The dependent variable used to measure financial success is (ROA), where ROA stands for return on assets and is calculated as the ratio of net income to total assets. Besides, LQR is measured using liquidity ratio where liquid assets are distributed by present liabilities.

Data Analysis Techniques

Considering the form of data, data is basically quantitative and henceforth related analysis techniques is applied in the study. Mainly panel regression analysis is applied to find out the effect of independent variables on dependent one. Data is presented using various tables to accurately and precisely established the influence of risk management in banks' financial performance in Afghanistan.

$$ROA_{it} = \alpha + \beta_2 LQR_{it} + \beta_3 CAR_{it} + \beta_4 OPR_{it} + \beta_5 SIZE_{it} + \mu_{it}$$

Panel Data Regression

In statistics, panel regression is a form of regression modified to models with panel and time effects. This method is broadly used in econometrics in which statistical units like panel units is considered across time and can be countries, states or firms.

It permits researchers to control panel unit effect as well as time effect when assessing regression coefficients. In addition, it is an influential approach to control the dependencies of unnoticed independent variables on dependent one in order to avoid unbiased estimation that might occur in other types of linear regressions.

Types of Panel Data Regression Models

In general, two types of panel data regression are discussed in statistics. They are random effects (RE) and fixed effects (FE). RE model controls individual effects of unobserved independent variables as random variables over time. It determines and focus on both dependencies between and within individual variables. On the other hand, FE model governs separate effects of unseen independent variables as constant. To select which model is appropriate for a particular study, the researcher used Hausman Test.

Hausman-Test of Model Specification

Hausman-Test is a statistical test that works as a test of misspecification. It is widely used to discover endogenous regressors in a regression model. In panel data analysis, the respective test assists the researcher to choose between random effects or fixed effects models. The choice of the model is centered to the stated null hypothesis for random effect. The interpretation of results of Hausman test is considerably simple. This means that, if the P value is less than (0.05) then reject the null hypothesis and retain the alternative one.

RESULTS AND DISCUSSIONS

In this section, the investigator is going to discuss risk management as predictor of financial performance of selected commercial banks in Afghanistan. This study analyzed secondary data of the last six years from 2016 to 2021.

Descriptive Analysis

The following section explains the descriptive analysis of the studied variables pertaining to management of risk and financial performance of commercial banks in Afghanistan.

Table 2 Descriptive Statistics

	ROA	LQR	OPR	CAR	BANK_SIZE
Mean	0.081	0.503	0.621	0.402	19.233
Median	0.070	0.552	0.675	0.315	17.470
Maximum	0.130	1.370	1.350	1.240	24.560
Minimum	0.085	0.010	0.030	0.000	15.210
Std. Dev.	0.110	0.344	0.257	0.269	3.362
Skewness	-0.046	-0.025	-0.153	0.840	0.623
Kurtosis	0.120	2.072	3.298	3.320	1.574
Jarque-Bera	0.090	1.940	0.411	6.596	8.067
Probability	0.540	0.378	0.813	0.036	0.017

The descriptive analysis provides an illustration of mean, minimum, maximum values of entered variables along with their standard deviation. In the above table presents the statistics of selected variables between 2016 to 2021.

Looking at the above table, the maximum value for return on assets found to be (0.130) while the lowest value is (0.085) followed by mean score is (0.081) and standard deviation is (0.110) indicating a variability in the financial performance of the concerned commercial banks. The data in the series shows normal distribution because of skewness value of (-0.046) which lies in the range of -0.8 to +0.8 denoting that all private and public commercial banks in Afghanistan are profitable. The results further showed that the maximum value for liquidity risk ratio in the above table is (1.370) and minimum values is (0.010) along with central tendency of mean value is (0.503). Further looking at standard deviation value (0.344) which indicates variability in liquidity risk ratio. The data also shows normal distribution as skewness value is (-0.025) occurred in the range -0.8 to +0.8. This indicates that liquidity risk ratio moderately going by the mean ratio though greater variability shown by the standard deviation.

Correlational Analysis

This section of the study presents the correlation matrix of the studied variables.

Table 3 Commercial Banks Correlation Matrix

	ROA	LQR	OPR	CAR	BANK_SIZE
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*Correlation is significant at the 0.05 level (2-tailed).

Above table 3 of association, it is evident, that there exists significant positive correlation between ROA and liquidity RM with value r= (0.398*) showing that when banks invest their liquid assets very well, high returns will be generated. The value of relationship between capital adequacy and ROA found to be (0.221) whereas operational efficiency r= (0.368*) and size of the bank r= (0.345) respectively with 5% significance level. Further table above, the value of correlation between ROA and liquidity RM which came out to be (0.398*) indicating a weak positive but significant relationship between liquidity RM and return on asset. Of those variables, the relationship between ROA and capital adequacy ratio found to be (0.221) showing weak positive correlation among the respective variables.

Relatively, the relationship between ROA and operational efficiency found to be (0.398*) meaning by that there is significant positive association between the mentioned variables. Besides, the correlation value between ROA and size of the banks came out to be (0.345) indicating positive correlation between the concerned variables. The findings of the current study supported Wood and Mconney (2018) findings. The research examined the effect of RM and financial performance of commercial banks in Barbados. After data analysis, the study found that liquidity, capital adequacy risk is significantly associated with ROA of these banks. The findings of the study are further similar with (Fredrick, 2012) whereas it is found that

capital, adequacy, size of the banks, liquidity and management efficiency had positive correlation with ROA of the studied commercial banks in Kenya. Moreover, the results also found to be equal with the earlier study completed by (Rudhani & Balaj, 2019; Echwa & Atheru, 2020).

Regression Analysis

In the current study, panel regression analysis has been applied to assess the effect of independent variables on predictor variable. The following table shows the model summary and coefficients for the respective variables.

Multicollinearity Test

Table 4 Model Assumption of MultiCollinearity

Variable	Collinearity Statistics	
	Tolerance	Variance Inflation Factors (VIF)
Operating Efficiency	0.746	1.341
Liquidity risk	0.909	1.101
Capital adequacy	0.684	1.463
Size of the bank	0.712	1.211
Return on Assets	0.966	1.035

Multicollinearity test is a type of model assumption test conducted for a situation where several independent variables are highly correlated with one another. It leads to considerable confidence interval and confirm the association among the study variables. Hence, to make sure that present study variables do not have the problem of collinearity, the calculated values should be above or greater than 1. Now looking at the above table, findings from multi-collinearity test indicates that the mentioned values for operating efficiency 0.746, liquidity risk 0.909, capital adequacy 0.684, size of the bank 0.712 respectively. Overall, above all values for independent variables are less than 1 indicating that the current model does not have collinearity issue.

HAUSMAN TEST

H_0: *Individual effects are random*,

H_1: *Individual effects are constant*

H0: Select

RE (p> 0.05)

H1: Select

FE (p <0.05)

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	17.473	4	0.001

From the table above its show that Fixed effect model is better than Random effect model and also our hypothesis and conclusion of the finding will base on Fixed effect model.

BREUSCH-PAGAN TEST

Heteroscedasticity Test: Breusch-Pagan-Godfrey

F-statistic	0.531	Prob. F (4,138)	0.713
Obs*R-squared	2.168	Prob. Chi-Square (4)	0.704
Scaled explained SS	13.475	Prob. Chi-Square (4)	0.009

After performing the Breusch-Pagan test, the value of F-statistics as shown above is

0.531 and a P-value for the same is 0.713 which is greater than the significance level (0.05) suggesting that the null hypotheses is accepted meaning that there is no evidence of heteroscedasticity in the residuals of panel data regression model.

Fixed Effects Model

Table 6 Fixed Effect

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LQR	0.538	0.275	1.963	0.004
OPR	0.552	0.280	1.971	0.001
CAR	0.830	0.322	2.577	0.019
LOG(SIZE) C	0.727 -2.333	0.267 1.212	2.727 -1.925	0.012 0.068
R-squared	0.576			
Adjusted R-squared	0.467			
F-statistic	5.039			
Prob(F-statistic)	0.009			
Durbin-Watson stat	1.934			

In the above analysis, the fixed effect model where LQR, CAR, OPR and bank size were significant at 5% level. Meanwhile, F statistics is significant which shows that the model is a good fit for the analysis. Table 6 of fixed effect panel model reveals that, the value of coefficient for LQR is 0.538 with P value (0.004) which is less than 0.05 significance level stating that liquidity risk has a strong positive impact on ROA of these banks. The coefficient 0.538 means that a one-unit increase in liquidity risk will bring 0.538 units change in ROA. In the above table, the coefficient value for operational efficiency came out to be 0.552 with a p value of 0.01 which means that OER has a significant positive impact on ROA. The coefficient value of 0.552 means that 1-unit change in OER will bring 0.552 units change in ROA. The coefficient value of capital adequacy ratio value came out to be 0.830 with p value 0.019 which is less than 0.05 significance level asserting that CAR factor is significantly contributing to the performance of mentioned banks. Moreover, the relationship is positive. The coefficient value CAR's 0.830 indicate that 1-unit change in CAR will bring 0.830 units change in ROA. The calculated value for size of the bank found to be 0.727 with P value= (0.012) which is less than 0.05 probability value asserting that bank size shows significant effect on the financial performance of all commercial banks in Afghanistan.

Discussion

Liquidity risk has a positive impact on return on assets. Theoretically it is believed that increase in liquidity risk should lead to decrease in profitability but in this study liquidity risk is measured through liquid ratio. A low liquid ratio on one hand means that liquidity risk is high but at the same it can result in more profitability as more of the liquid assets are put into earning activities thus resulting in increased profitability. The liquidity-profitability trade-off theory, which holds that profitability and liquidity are negatively related or that there must always be a trade-off between the two, is in fact violated by this. The result's implication is that the cash conversion cycle (CCC) measures liquidity in a different way than a traditional ratio. In general, it is believed that standard liquidity ratios like the current ratio fall short in assessing how well businesses manage their working capital. This finding is consistent with those of Pandey and Jaiswal (2011), Bhunia et al. (2013), and Lyroudi and Lazaridis (2000). Another reason is that, during the study period, liquidity had low degree of effect on the profitability of Afghan commercial banks. This can be also expected that commercial banks present the weak status of their performance for possible reasons which likewise to be expected in Afghanistan.

Banks shall meet liquidity risk due to liquid assets and greater dependency on external finding as well macroeconomics factors which lower banks profitability. From these findings regarding liquidity risk, several issues have been appareled for policy makers. First, LQR measures need higher level of attention to its impact on financial performance of mentioned banks in Afghanistan. Second, management should further reevaluate their practices pertaining to risk in order to redesign and provide better approaches to avoid future financial crises in banking sector. Lastly, these banks should also establish such policies to secure these firms from international risk factors in near future. Thus, the hypothesis that liquidity risk has positive impact of banks' profitability is accepted. It further ascertains that LQR considerably predicts the commercial banks financial performance in Afghanistan. The findings of the present study are supported by studies conducted by (Fredrick, 2012; Marzova, 2015; Rudhani & Balaj, 2019).

Operational efficiency ratio has a strong positive impact on ROA. As the firm the increases its efficiency by lowering expenses and increasing income, net profitability tends to rise. The use of technology and digital banking has significantly increased the efficiency of the banks which has positively affected the ability of the banks to lower its costs. Empirical studies from Sing and Tandon (2012), Tripathi et al., (2014) and Al-Ardah and Al-Oudeh (2022) all found positive impact of OER on ROA.

Capital adequacy is an indicator for banks' capacity to provide considerable funds for more business within the context of banks' policies. It ensures the need and ability of accommodation the risk of losses of funds caused by banks' operations. It signals to the extent to which the decline in firms' assets can still be controlled by the existing bank equity. It is common ratio which indicates the assurance and comforts of the depositors of these firms. It significantly scaffolds the operations of banks with efficiency. Henceforth, the higher the respective ratio the better the performance of these commercial banks. It is the central parameter for concerned managers to maintain sufficient levels of capitalization.

Besides, gripping unexpected events, they signal that such associations will stay to honor its commitments towards controlling prior risks in the firms. Haron (2004) asserted that capital adequacy eventually defines how well financial establishments handle such intimidations to their balance sheets. Therefore, it is essential to keep an eye for the mentioned factor. Sufficient capital lay down strong base of confidence to depositors. It is used to defend depositors and promote the stability and efficiency of financial systems around the world. In banking sector, scholars have been identified ROA as proxies of probability among commercial banks (Murthe & Sree, 2003; Tarawneh, 2006). The respective factor shows how profoundly the resources of firms are used for better profitability.

Consequently, the research hypothesis that capital adequacy has affirmative impact on ROA of nine commercial banks in Afghanistan is accepted meaning hereby that, CAR risk management has a profoundly affects the profitability of studied commercial banks in Afghanistan. The findings pertaining to respective variables are similar with previous study conducted by Wood and Mconney (2017), Athyamoorthi

et al., (2020), Hery et al., 2020). The results of this study also contradict the findings of studies conducted by Soyemi et al., (2014), Adeusi et al., (2014), Wood and Mconney (2018).

Lastly, bank size has a strong positive impact on ROA. Large size has certain advantages that can be used by the organization to its own advantage. In addition, the results show that increased in banks size promotes better diversification that minimize the risks and allows banks to enhance their operations with adequate capital and stable funding. It further indicates as bank size is become larger, it enables to operate in various markets segments and the higher firm size the better the market-based activities that further assure the fixed costs and economy scales in the respective market. Thus, banks' management authorities and other policy makers should keep in mind the impact of bank size while designing financial policies to ensure greater financial performance of commercial banks. The banks' association should also develop a policy related to assets quality and its standard management to assure the progressive positive performance of the banking system in Afghanistan. The results are also consistent with earlier studies (see Kioko, 2010; Laven et al., 2014; Gathigia, 2016; Ebimobowei et al., 2021; Karimi et al., 2021) whereas they found similar results pertaining to the concerned variables of this study Furthermore, size of the firm affects the efficiency of these organizations and large banks shall survive as asserted by the previous literature. Thus, better financial performance is associated with return on assets of banks. The profitability is the central factor among others like social and environmental ones which enable these banks to sustain an operate efficiently and serve the stakeholder, public and mainly economy of the country. Looking to the previous performance of commercial banks in Afghanistan, 2012 year has been the poor in terms of return on assets but has improved over the years (Haidary & Abbey, 2018).

Therefore, the hypothesis that bank size has a positive impact on the probability of these banks is accepted indicating that bank size as controlled variable is profoundly influence the financial performance of all selected commercial banks in Afghanistan. In the literature, banks size is considered a vital factor of bank performance. Its influence is supposed to capture the impact of economies scale by means of

increased operational efficiency and hence it is expected to have positive influence on these firms' performance.

It is evident from the above results that bank based risk factors have a significant effect on financial performance. Further considering the current results of this study, it can be seen that all commercial banks considerably operating well and found to be profitable. The researcher argues that due to effective RM policies and strategies led these firms to maintain proper balance between possible risks and their ROA. Keeping and maintain profitable record, they need to spy on and spot possible risks at their earliest in order to run their operations smoothly. With such precautions, they will also find opportunities for their survival in the market and will further protect their earnings for future. In the light of previous studies, risk is inherent to any business and it is ultimately increasing because of today's dynamic and competitive contemporary markets. Firms also designed various strategies to mitigate risk. Hence, these findings assert that above studied variables profoundly affect the profitability of commercial banks in Afghanistan. Thus, studied factors require serious attention from risks managers in banking sector of Afghanistan in order to run their operations smoothly and efficiently in this competitive era of banking.

CONCLUSION AND RECOMMENDATIONS

Conclusion

From the data analysis of this study, the subsequent conclusion and recommendation can be withdrawn. The analysis and findings were based on the study objectives as the study attempts to determine the influence of RM on Financial Performance of Banks in Afghanistan by taking the bank size as control variable. From this study, it can be summarized that the core objective research was to find out RM as predictor of financial performance of banks in Afghanistan. From the collected secondary data between 2016-2021, it can be added after analysis that there exists positive correlation between liquidity risk and financial performance of commercial banks in Afghanistan. Of those variable operational efficiency is significantly correlated with financial performance of all nine selected commercial banks in Afghanistan. Moreover, weak positive correlation was found between capital adequacy and ROA

and with size of the banks is statistically significant with dependent variable of the commercial banks in Afghanistan.

Form the above regression analysis and findings, it can be determined that risk management significantly predicts the financial performance of the commercial banks in Afghanistan. This study further revealed that there is a positive significant correlation between the studied variables and therefore concluded that all independent variables exert significant impact whereas control variable "size of the bank" showed statically positive influence on the financial performance of commercial banks of Afghanistan. Therefore, top management and policies makers should consider mainly the positive influence of firm size and assets adequacy for better financial performance of commercial banks. They should also devise policies in respect to asset quality and effective management to ensure the significant return on assets of banks constantly.

Besides this, size of the firm significantly affects the profitability of these commercial banks in Afghanistan. The authorized managing team should ensure the maximum access of the customer to their banking system meaning hereby they should open their doors for public services in various possible areas. This could assist these banks to maximize their ROA effectively. The results of this study are vital for investors, bank managers, academics, stakeholders and government. The main policy application of this investigation is associated with profitability of commercial banks in Afghanistan. The following recommendation should be considered and maintained for the future of these commercial banks operating in Afghanistan.

Recommendations

Based on the present findings of the study, the following recommendations are provided.

- The outcomes of the research revealed that liquidity RM exerts positive impact on the financial performance of commercial banks in Afghanistan. Hence, there is a need to set-up strong base and structure for the management of liquidity risk

in order to enhance and utilized the liquid assets more efficiently for financial performance of mentioned commercial banks in Afghanistan.

- Results about Operational; efficiency of these firms found to exert significant effect on the financial performance of the mentioned banks in Afghanistan. The current practices should be more tighten and keep continue so that resources in terms of all can be effectively used and in return the ROA will increase in parallel.

- The current findings also reported that capital adequacy exerts profound impact over the performance of banks in Afghanistan. Consequently, these firms should strengthen keep adequate funds for more business opportunities to immensely adapt more profitable chances for the better profitability of these banks.

- The present results also found that size of the bank as controlled variable strongly associated and exerts important effect over the financial performance of respective banks of Afghanistan. Thus they have to keep and maintain adequate capital so that they could offer quality services even in stressful condition.

They should also improve their assets and capitalization level to hence the financial performance respectively.

Future Research Suggestions

Future research in this area. The following suggestion are recommended for future research work in these areas. First, the present study has taken all commercial banks operating in Afghanistan. Future research can be taken to compare the financial performance of private and public banks for better scenario presentation of RM practices and its impact over both sides. Future study can also explore bank specific and macroeconomic determinants in order to collect a robust inclusive result regarding Afghan commercial banks. Lastly, future research can be conducted by taking other variables like credit RM on the performance of mentioned firms in Afghanistan and further to study the effect of customer services and their retention to these commercial banks in Afghanistan.

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